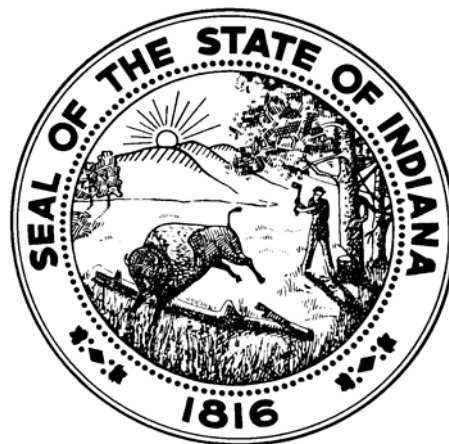


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF

BUREAU OF MOTOR VEHICLES,  
BUREAU OF MOTOR VEHICLE COMMISSION, AND  
ALL INDIANA LICENSE BRANCHES  
STATE OF INDIANA

Review Periods of March 1, 2004 to June 30, 2006



**FILED**  
01/22/2007



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#### AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner of the Bureau of Motor Vehicles and Chairman of the Bureau of Motor Vehicles Commission	Mary DePrez Joel L. Silverman Ronald L. Stiver	03-01-04 to 01-09-05 01-10-05 to 10-15-06 10-16-06 to 01-11-09



# STATE OF INDIANA

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TO: THE OFFICIALS OF THE BUREAU OF MOTOR VEHICLES, THE BUREAU OF  
MOTOR VEHICLES COMMISSION, AND ALL INDIANA LICENSE BRANCHES

We have reviewed the processes and records of the Bureau of Motor Vehicles, the Bureau of Motor Vehicles Commission, and all Indiana license branches. The Bureau of Motor Vehicles was reviewed for the period July 1, 2004 to June 30, 2006; the Bureau of Motor Vehicles Commission was reviewed for the period March 1, 2004 to June 30, 2006; and the license branches were reviewed for the period January 1, 2005 to June 30, 2006. This was done to bring them to a common end date. The management of the Bureau of Motor Vehicles, the Bureau of Motor Vehicles Commission and the license branches is responsible for the processes and records.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the processes and records of the Bureau of Motor Vehicles, the Bureau of Motor Vehicles Commission and all Indiana license branches. Accordingly, we do not express such an opinion.

It was also our intention to provide supplementary information of the individual license branches' receipts, disbursements and balances, but we were not able to obtain the information from the computer system.

The attached review comments contain our conclusions. The Bureau of Motor Vehicles, the Bureau of Motor Vehicles Commission, and the Indiana license branches were not in compliance with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies nor with their own policies and procedures as stated in the attached review comments.

STATE BOARD OF ACCOUNTS

December 22, 2006

BUREAU OF MOTOR VEHICLES, BUREAU OF MOTOR VEHICLE COMMISSION,  
AND ALL INDIANA LICENSE BRANCHES  
June 30, 2006

## INTRODUCTION

This review is for the following periods:

- License branches - January 1, 2005 to June 30, 2006
- Bureau of Motor Vehicles Commission - July 1, 2004 to June 30, 2006
- Bureau of Motor Vehicles - March 1, 2004 to June 30, 2006.

Subsequent reports will be for the period July 1 to June 30, each year.

This initial comprehensive review combines the findings relating to the Bureau of Motor Vehicles (BMV), the Bureau of Motor Vehicles Commission (BMVC), and all Indiana license branches. These entities have significant interrelated operations.

The license branches function as the primary site for issuing driver licenses, auto and watercraft registrations, and license plates. The fees for licenses, registrations, and plates and the associated excise and wheel taxes are collected at license branches.

The system used by the license branches to provide the above services has been developed and is maintained by the BMV. The BMV is responsible for accurate and timely distribution of the fees and taxes collected. In addition, the BMV supports the training and continuing operations within the branches; contracts for services and products; serves as a resource for county officials with excise tax questions; and performs numerous other duties.

The BMVC has been established by Indiana Code. The Commission consists of four individuals appointed by the Governor to serve four year terms and the Commission Chairperson who is the Commissioner of the BMV. Except for the Commissioner, members are not required to devote full-time to their commission duties. Commission duties include developing and updating bureau policy; establishing standards for the operation and maintenance of license branches; and submitting budget proposals for the commission, the bureau, and the branches.

## FOLLOW-UP ON PRIOR FINDINGS

Many of the findings contained in this report were disclosed to the Bureau of Motor Vehicles (BMV) and the Bureau of Motor Vehicles Commission (BMVC) in prior audit reports. As with our previous reports, this report identifies an inadequate internal control structure design. A poorly designed internal control structure would affect management's ability to make informed decisions and to correct design flaws with respect to previously reported areas.

The finding regarding deficiencies in the fixed assets inventory process has appeared in the prior nine (9) audit reports (most recently in B24132). The finding concerning credit card processing fees has appeared in eight (8) prior audit reports (most recently in B24132). The following findings include other chronic conditions that were previously disclosed:

- Bank Account Reconciliations and Statements
- Untransferred Monies
- Control of Undistributed Balances
- Special Disbursing Officer Funds
- Cash Book
- Inactive Bank Accounts and Authority for Local Bank Accounts
- License Branch Examination Results

BUREAU OF MOTOR VEHICLES, BUREAU OF MOTOR VEHICLE COMMISSION,  
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- Procurement Procedures
- Driver Improvement Instruction
- Internal Control Over Bureau of Motor Vehicles Division Revenue Collections
- License Branch Inventory.

While the timeframe covered in this report pre-dates the arrival of current BMV leadership, it is noteworthy that the current leadership of the BMV and the BMVC has clearly indicated, through words and actions, that the conditions cited in the report are not acceptable and that it is their intent to correct not only the conditions identified, but to design and implement internal controls so these conditions are not repeated.

#### INTERNAL CONTROL STRUCTURE AND ENVIRONMENT

An internal control structure is comprised of the control environment, risk assessment, control activities, monitoring and the information and communication that are to occur throughout the processes. The control environment is the basis for the internal control structure, as it includes the process by which the structure is designed. The nature of our findings indicates that the control environment was not functioning. We consider this to be a material weakness in internal control. A material weakness in internal control is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, or irregularities in amounts that would be material for a fund, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

During our review period, the Branch Operating Support System (BOSS) was being phased out and the System Tracking and Record Support (STARS) was being implemented. Some controls that had been in place for BOSS were discontinued after 2004 even though the BOSS system was still used to process over a billion dollars of transactions from January 1, 2005 to June 30, 2006. While BOSS controls diminished, our review of STARS also identified a serious lack of internal controls and inadequate accounting records.

The following referenced findings are also considered to be material weaknesses in internal control. The lack of an accounting system as described in our finding, ACCOUNTING RECORDS, is a material weakness. Reports should provide complete and accurate information consistent with financial reporting objectives and current needs, yet the Bureau of Motor Vehicles (BMV) could not provide license branch collection and distribution information due to inadequate reporting. The lack of basic business functions (performing bank account reconciliations and being able to list the bank accounts which are in BMV control) is further detailed in BANK ACCOUNT RECONCILIATIONS AND STATEMENTS. While moneys were collected utilizing STARS, the associated STARS process for county excise tax distributions was not functioning during our review period. This condition as well as a concern over timely disbursements of fees and taxes is described in our finding DISTRIBUTION OF FEES AND TAXES. There are other findings within this report that indicate material significant weaknesses in internal control, irregularities, nonfeasance of official duties, and other statutory noncompliance.

We were not provided with requested STARS design structure information, yet we identified system operating irregularities in basic procedures necessary to balance transactions.

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Control environment weaknesses are often indicated by management's failure to correct previously identified deficiencies. Many conditions reported in our prior review reports were not corrected and most worsened. The accounting control structure concerns were caused in part by financial managers lacking experience in the design and operation of internal controls, particularly in conjunction with the change in computerized applications. Financial management's attention was directed towards basic transaction design when STARS was implemented without attention being given to developing a functioning accounting and revenue distribution process.

The BMV also lacked an internal process to report deficiencies in internal control to management. The BMV's internal audit section has had reduced independence and staff levels in the past several years. Independence is achieved from direct reporting to the Commissioner, in order that the scope of testing and reporting may not be influenced by those responsible for the financial department. Adequate staff levels are also necessary to fully perform the testing required and to assist with audit resolution. Currently, the internal audit section reports to the Finance Department. The result of a less active internal audit group is that the Bureau is not reaping the benefits of objective internal control reviews that could be valuable in management decision making.

We recommended that the control environment weaknesses be addressed by management through effective oversight of the internal control structure. This can be accomplished by dedicating the resources necessary to design and operate an effective accounting system and by monitoring for the resolution of the findings within our report and for any problems identified by the BMV.

Each agency, department, institution or office has the following accounting responsibilities:

1. Operate within the confines of the established budget.
2. Maintain a control environment.
3. Maintain control activities.
4. Properly utilize the state accounting system.
5. Maintain an effective and accurate accounting system for subsidiary and supplementary records.
6. Maintain, and make available for review, documentation supporting the validity and accountability of monies received or disbursed.
7. Perform duties in accordance with statute, regulations, state policy, contract provisions, and federal requirements as applicable.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Indiana Code 5-13-5-1(a) states: "Every public officer who receives or distributes public funds shall: (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and (2) balance the cashbook daily to show funds on hand at the close of each day."



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ACCOUNTING RECORDS

The new System Tracking and Record Support (STARS) does not provide accounting information. The STARS system was designed to process the source transactions, but does not have an associated comprehensive accounting system, including the maintenance of a ledger balance. Bureau personnel, including the staff at each license branch, do not maintain any type of alternative accounting process to record receipts, disbursements, and balances. As a result, Bureau personnel cannot know at any given point in time what the balance of their receipts or cash on hand should be or to which fund it is due.

As a governmental entity, the Bureau of Motor Vehicles (BMV) has a responsibility to maintain reliable accurate financial information. An effective accounting system is necessary to provide a structure for consistent, accurate, and balanced reports and to ensure that money collected is being distributed accurately and in a timely fashion. Reports could also be used by management for planning, budgeting and other decision making.

The BMV's central office accounting was largely that of processing transactions, without a corresponding accounting system. Approximately \$912 million in transactions were processed by the BMV for the fiscal year ended June 30, 2006; however, STARS reporting was not designed to classify collections by the revenue transaction types that would correspond to the distributions made to the counties for excise and wheel tax; to the state for fees; and to the Commission. Without the accounting system to adequately track and report the financial transactions processed, the information presented for review was not sufficient to review or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions.

We recommended that an accounting system be designed and implemented and records be maintained to properly classify and account for collections and distributions of each license branch by transaction type. Corresponding financial reports could then be developed and available for audit.

All accounting forms, records and systems used are required to be prescribed or approved by the State Board of Accounts. This includes all statements and reports necessary for the internal administration of the office to which they pertain. It also includes electronic, automated or computerized systems. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If the reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Indiana Code 5-13-5-1(a) states: "Every public official who receives or distributes public funds shall: (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and (2) balance the cash book daily to show funds on hand at the close of the day."

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BANK ACCOUNT RECONCILIATIONS AND STATEMENTS

Bank reconciliations for Bureau of Motor Vehicles (BMV) depository bank accounts are not formally documented. While the newly implemented System Tracking and Record Support (STARS) system included some records on bank account activity for license branch and central office bank accounts, the reconciliation process was not possible due to the lack of adequate accounting information. The STARS system does not maintain a record of daily receipts, disbursements, and the end of day cumulative balance which is often referred to as a ledger balance.

Each central bank account had the same individual responsible for maintaining records, also: initiating the batch process that transfers monies from the branch bank accounts to a central office bank account; creating the batch process to distribute county excise monies to the counties; and transferring state fees collected to the Treasurer of State, all without additional documented monitoring. This is considered to be an insufficient segregation of duties in accounting for the bank transactions and a lack of internal control.

A comprehensive listing of all bank accounts in the name of or under the control of the BMV was not maintained. This is significant because there were approximately 170 bank accounts under the BMV's control during our review period. At our request, a listing was compiled and presented for review. During our review of cash, we noted two bank accounts were omitted from the list provided by the BMV. Copies of signatory cards for the bank accounts were not available. Many of the bank statements could not initially be provided for review. Copies were later provided by the BMV at our request.

A similar comment has appeared in prior review reports.

As a result of not performing bank account reconciliations and having incomplete accounting records combined with a lack of segregation of duties, material errors and irregularities or intentional fraud could occur and go undetected. Also, not having a complete listing of bank accounts could lead to accounts with BMV funds being overlooked or forgotten.

We recommended that a formal schedule for expected accounting procedures, including the timely reconciliation and review of bank statements, be developed and implemented. The reconciliations and bank statements should then be retained for audit. Identified errors should be corrected in a timely manner. Duties should be adequately segregated in the design of an internal control structure for the records and reconciliation process.

We further recommended procedures be established and implemented to maintain a record of bank accounts in the name of or under the control of the BMV. This should include a comprehensive history listing (date account was opened, date account was closed, authorized signors, etc.), and copies of bank agreements. This listing would provide better controls to allow the BMV to monitor what accounts exist, who has access to them, which banks the accounts are with, etc. We recommended the BMV also retain all bank statements so they may be presented for audit.

For funds outside the state's system, the governmental unit must maintain appropriate accounting records and controls. This includes performing monthly bank statement reconciliations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

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Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Documents should be retained in accordance with a retention schedule approved by the Oversight Commission on Public Records. Also, documents must be filed in such a manner as to be readily retrievable or otherwise reasonably attainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Indiana Code 5-13-5-1(a) states: "Every public officer who receives or distributes public funds shall: (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and (2) balance the cashbook daily to show funds on hand at the close of each day."

#### DISTRIBUTION OF FEES AND TAXES

The Bureau of Motor Vehicles (BMV) oversees 136 license branches where fees and excise taxes are collected for drivers licenses, vehicle and watercraft registrations, vehicle and watercraft titles, and other miscellaneous transactions. These fees and taxes are collected for specific purposes and, after they are collected, are to be distributed to specific funds where they become available for use.

The BMV first implemented the System Tracking and Record Support (STARS) computer system as a test in July of 2004. For the first several months, STARS reports detailing the distribution amounts were not available to the BMV staff. Therefore the staff did not know how to distribute collections. In June 2005, programmers were able to calculate the amounts to distribute for state fees utilizing STARS. However, the breakdown of the excise tax due counties had to be done in a separate system. Excise tax distributions were compiled outside of STARS during our review period.

The Seymour License Branch in Jackson County was the first to implement the STARS computer system in July 2004. Five months later in December of 2004, Jackson County received the first distribution of excise tax that had been collected utilizing STARS. The next distribution to counties from STARS collections did not occur until May 2005. By then several branches had been processing at least some of their transactions utilizing STARS. Transactions were either performed utilizing BOSS or utilizing STARS. There was never a time that the systems were running parallel.

The first distribution to the state was in March 2005. A Report of Collections, which would detail the various state funds and how much each fund was to receive, did not accompany the \$1,021,463.09 distribution and Bureau personnel could not provide fund distribution information to the Auditor of State. Actual branch activity indicated that this first distribution was overstated in excess of \$800,000. As of September 2006, the BMV had not yet determined the correct amount that was due to the state for that period or the related fund distribution information. The \$1,021,463.09 is still in the Auditor of State's bank account awaiting proper distribution and it cannot be used for its intended purposes until its allotment is determined by the BMV.

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Since May 2005, distributions to both the state and counties have occurred more frequently but not in a regularly scheduled fashion. Governmental units that depend upon distributions from the BMV did not know when or how much revenue they might receive. This made the operations of the services supported by these fees and taxes difficult to manage and budget. The branches have been substantially consistent in collections, but haphazard distributions were made by the BMV.

We recommended that an accounting structure be developed that will show the collections per branch and to what fund they should be paid. A formal accounting schedule should be established for issuing distributions. The correctness of the March 2005 state distribution should be determined and the details provided to the Auditor of State.

Indiana Code 6-6-5-9 provides for the distribution of excise taxes to the county treasurer two times per week. It also requires a weekly "report to the county auditor of the county to whom the collections are due, showing the excise tax collected on each vehicle, each refund on a vehicle, and a copy of each registration certificate for all collections and refunds within the county."

#### UNTRANSFERRED MONIES

We noted several areas where monies were due to the state or counties but have yet to be transferred. They include the following:

- We identified \$4,230,628 due to the Auditor of State as reimbursement for refunds of county excise taxes made for the period January 1, 2005 to June 30, 2006. Refund checks to customers for excise taxes were issued from the Auditor of State for transactions processed in the Branch Operating Support System (BOSS). Subsequently, Bureau of Motor Vehicle (BMV) personnel transferred money from a separate bank account (County Account) containing county excise tax revenues to the Auditor of State as reimbursement. However, the balance of the County Account at June 30, 2006, was only \$1,335,006, leaving a difference of \$2,895,622 needed in order to fully reimburse the state. A similar comment has appeared in prior review reports.
- \$3,496,137 had yet to be transferred out of local BOSS bank accounts at June 30, 2006. While utilizing BOSS, each license branch had its own bank account. As the System Tracking and Record Support (STARS) computer system was implemented, most branches began using a separate bank account for STARS transactions. After BOSS transactions ceased on June 10, 2006, it was planned that all BOSS related funds would be transferred out of the local branch accounts into BMV accounts for distribution to the appropriate state and local agencies. Subsequent to the review period at July 31, 2006, \$817,718 still remained in local BOSS accounts. We are unaware of any subsequent transfers after July 2006.
- \$3,003,244 existed at June 30, 2006, in a checking and a savings account (Bad Check account) established for the collection of checks that were returned to license branch accounts for customer checks returned for insufficient funds. The Bad Check accounts were maintained at the BMV central office outside of the state's system of accounting and were comprised of insufficient fund fees collected for transactions utilizing BOSS. The Bad Check fund account balance was used to cover any insufficient fund checks that are not collected. A similar comment has appeared in prior review reports.

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- No transactions occurred after October 2005 in a transfer bank account established to correct distributions between counties and to transfer funds between license branch accounts. As of May 30, 2006, the balance of the account was \$8,001.62. Bank statements after May 30, 2006, were not presented for review.
- On May 10, 2006, the bank account for the Petersburg license branch contained \$163,803 from daily collections dating back to September 15, 2005. We observed several emails between the branch officials and BMV personnel in Financial Services attempting to correct the situation. However, as of October 5, 2006, the amounts remained in the branch account. Per information provided to the branch from BMV Financial Services, an automated clearing house (ACH) report had been run for each day's collections, but the funds had not been withdrawn from the branch account.

Because these monies have not been transferred and remain in BMV bank accounts, the intended recipients of these funds have had their revenue delayed. Furthermore, when transfers are delayed, information identifying the appropriate recipient could become less apparent or even discarded, which would further delay or even prohibit the transfer of the funds altogether.

We recommended the amounts identified above be transferred as soon as possible to the appropriate state or local agency.

Indiana Code 4-10-11-3 states: "In the accounting for moneys expended, the items of the appropriation act shall be literally followed and in no case shall moneys appropriated for one (1) specific purpose be diverted for the purposes of another."

The agency has the responsibility for recording and submitting documents prepared as input to the Auditor of State's accounting system. The proper utilization of the state system includes the objectives of: timely submission of documents; proper classification of the transaction; recording of accurate amounts; and verification of correct posting to reports. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

All transfers must be made in accordance with the Bureau's prescribed transfer schedule. (Branch Operations Policies and Procedures Manual, Journal Chapter)

#### CONTROL OF UNDISTRIBUTED BALANCES

The balances held in the state holding, watercraft holding, and county excise bank accounts were not compared to subsidiary records for transactions processed in the Branch Operating Support System (BOSS). While utilizing BOSS, license branches transferred collections to three state accounts: the county excise bank account; the watercraft bank account; and the state holding bank account. Bureau of Motor Vehicle (BMV) Financial Services then made distributions of excise taxes to the counties and transferred state monies to the Treasurer of State. Reports or information necessary to facilitate a comparison of the bank accounts to BMV records have never been prepared. Because such a comparison has never been performed, errors or shortages could occur and go undetected.

A similar comment has appeared in prior review reports.

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With the implementation of the System Tracking and Record Support (STARS) computer system, no controls are in place to verify the undistributed balances held in the central office bank accounts. This condition may further be caused by the lack of accounting records maintained in the central office for STARS operations.

With the implementation of STARS, procedures were changed to have multi-branch banking, and central office withdrawals from branch bank accounts, without any corresponding accounting system. As a result, we cannot ascertain the validity of any of the bank account balances held by any branch, region, or central office account.

We recommended an accounting system be designed and implemented in order to account for the bank transactions at the branch, regional, and central office levels. We recommended a system be implemented to verify undistributed balances. This would include system reports, comparisons and communication of results to management on a regular established timely basis.

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

#### COMPUTER PROCESSING CONCERNS

We requested, but were not provided with information to perform a review of the Support Tracking and Record Support System (STARS) design. However, we were provided basic training and access to STARS. Our review of branch operations, site visits, and inspection of STARS transactions revealed the following:

- Excise tax was not always remitted to the proper county. We observed many instances where counties received excise tax that they could not pass along to the proper recipient district because the payee address that was provided was outside of the county. For example, Grant County received \$5,730.50 in the first five months of 2006 that appeared to be sent to them in error. Counties report back to the Bureau of Motor Vehicles (BMV) the amounts that do not belong to them, but the BMV central office staff has stated that STARS is not capable of correcting the error at this time.

In addition to the apparent result of a county receiving incorrect excise monies, there is a less conspicuous result. The Auditor of State allots lottery credit money to counties based upon the Bureau's reported collections. So not only is the recipient county missing out on excise tax collected, it is not receiving its fair share of lottery credit monies. In the example of Grant County above, in addition to the \$5,730.50 that they received from the BMV in error, they also received \$4,909.20 lottery tax from the Auditor of State that was not due them.

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- At the time a STARS invoice is balanced and closed out, a detailed report of all transactions pertaining to the invoice is to be printed and retained in the End of Day file at the branch. The report is titled BMV Invoice Report (Invoice Report) and is made up of six sections: Drivers, Registrations, Titles, Watercraft Titles, Watercraft Registrations, and Miscellaneous. The Invoice Report is the detailed support for all transactions processed for the day and should agree to the total monies received. However, we noted that in most instances the BMV Invoice Reports we tested did not agree to the total monies received for the day. For example, one Invoice Report had detailed transactions totaling \$19,428.15. The STARS End of Day Summary shows total monies collected of \$18,465.15 or \$963 less than the detailed report. In another instance, the Invoice Report totaled \$12,061.66 while the End of Day Summary totaled \$12,332.94 or a difference of \$271.28 more than the detail report.
- At the completion of a STARS invoice, a check register detailing the checks processed is printed. The total of the check register should agree to the checks actually deposited for a particular day. STARS also generates a report titled "Deposit Slip" which shows the amount of cash and checks collected and the total amount deposited. The total of the Check Register should agree to the amount of checks on the Deposit Slip report. However, of the invoices tested, 9% of the Check Register totals did not agree to the amount of checks per the Deposit Slip report or to the duplicate copy of the bank deposit slip.
- Transaction anomalies are sometimes displayed on STARS screens. Examples are:
  - A vehicle title transaction that had an out of state sales tax credit was displayed as having the Indiana sales tax amount distributed, with the associated out of state sales tax credit distributed out of the Bureau of Motor Vehicles Commission (BMVC) Fund. This was observed on the Sub-Transaction Fees and Taxes – Distribution screens. This indicates that too much state sales tax was distributed.
  - A January 2006 new registration showed excise tax was owed for 2005 on the excise tax overview section of the Visit Sub-Transaction screen. However, it was not shown in the fee summary and was not collected.
  - Screen displays of payment history for cash tendered transactions displayed the gross cash amount received as the amount paid. An example we observed was a total charge to obtain a driver's license for \$21. The customer remitted \$40 cash with change due back of \$19. The display on the payment history screen lists \$40 as the payment. While it did not appear to impact the end of day balancing, this may indicate an error in history records.
  - The required approval for waived fees was not displayed on any screen or documented in any other manner.

The effect of not providing an accurate detailed listing of all transactions processed in the Invoice Report is that errors could occur and not be detected. Examples of errors that could occur are: transactions could be posted for the incorrect amount; transactions could be omitted entirely from the detailed reports; transactions could be posted for visits that did not take place; etc. Without accurate detailed reports to support the transactions processed utilizing STARS, it cannot be determined that all transactions were properly processed.

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The lack of an accurate detailed listing of checks deposited does not allow for verification that all checks deposited were for transactions processed on the corresponding day's invoice. An accurate detailed listing of checks is important to ensure the checks being deposited are for the current day's transactions and are not being substituted for cash that has been fraudulently removed from collections.

Inconsistencies in screen displays can cause users to lose confidence in the information on the screens. They may then dismiss issues as system problems and may not question actual errors.

We recommended that the causes of the variances in reports and screen displays be identified and that corrections be made.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies for State Agencies, Pages 1:6)

#### COMMINGLED COLLECTIONS AND BANK ACCOUNT

As the System Tracking and Record Support (STARS) computer system was implemented at each branch, the use of separate state bank accounts was discontinued. For STARS, all branch collections are commingled into one central bank account, which is commonly referred to as the monster bank account. Central office reports classifying receipts or bank deposits by type are not available.

We recommended a separate bank account be maintained for the excise tax collections. We further recommended that accounting records be maintained in the central office that classify revenues by type upon receipt and their subsequent distribution.

Indiana Code 6-6-5-9 (a)(1) states that "The excise taxes so collected by each license branch, less any refunds made by the license branch, shall be deposited daily by the license branch in a separate account in a depository duly designated by the state board of finance . . . (3) Each license branch shall also report to the bureau all excise taxes collected and refunds made under this chapter in the same manner and at the same time as registration fees are reported."

#### INTERNAL CONTROL OVER CONTRACT PAYMENTS

There was no payment approval process in place to ensure payments were reviewed by the responsible Bureau of Motor Vehicles (BMV) official prior to payment by the Auditor's office. This is an internal control weakness. This condition was previously stated in prior reports.

We reviewed the contract process and identified no evidence that verifications were performed in order to approve contract payments. Such procedures would include: comparing invoiced rates to the contract rates; providing evidence of the receipt of goods or services by the staff with direct knowledge and responsibility; verifying mathematical accuracy of the vendor invoice; checking BMV records of processed claims to ensure that payment was not previously made; and verifying that the total contract payment would not exceed the maximum allowed by the contract. A checklist form would serve as evidence of such procedures.



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The following exceptions were noted in our review of contract payments:

- The BMV contracted with Unisys Corporation for the design and development of the System Tracking and Record Support (STARS) computer system. The contracts were written in a confusing manner with contract payments scheduled and not tied to contract performance or completion. BMV personnel believed that a separate contract existed between Unisys and the Department of Information Technology (which became the Indiana Office of Technology in 2005) to provide information technology services to state agencies. BMV utilized this contract and was paying for additional programming services without a copy of the specific agreement. No agreement could be provided for review. Records did not clearly demonstrate that the additional services were beyond that of the original BMV contracts. The total amount paid to Unisys for the additional services was \$2,358,309. Also in question were payments stemming from change orders. While change order activity was furnished, the approvals of change order requests were not provided for review. The lack of detailed contract information and poor recordkeeping caused a delay in payment which resulted in statutory interest penalties of \$48,004 being paid to Unisys during our review period.
- The BMV contract with Intellectual Technology, Inc., as a sole source provider of the self-service terminals, vehicle registration printers, and related software and supplies, was signed late each year; on March 7, 2005, for the contract term that began November 1, 2004, and on July 10, 2006, for the contract term that began November 1, 2005. On each occasion, the BMV continued to pay the vendor at the prior rates in effect, with later credits required to adjust for overpayments issued. No listing of the total payments issued under the agreements was provided for review, so we could not determine if the contract maximum of \$4.1 million for the term ended October 31, 2005, was exceeded.
- Two license branch lessor construction claims paid for \$23,000 in cabinets and \$7,000 for a floor were not adequately itemized, documented, or justified in the accounting records. The \$7,000 payment was issued based on an estimate only. Neither payment was provided for under the branch lease terms, but arrangements were made by BMV staff to order the work. These payments may cause the contract maximum consideration to be exceeded, as they were not required in the agreements.
- No contract was provided for the installation of cabling for STARS data jacks as paid by the Bureau of Motor Vehicles Commission (BMVC). Procurement staff told us that each order was likely just called in. The total amount paid to the vendor for fiscal year 2006 exceeded \$100,000.
- Adequate supporting documentation was not provided for 5% of disbursements selected for testing.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

We recommended that contracts be retained and subsequently provided for audit. Also, a record of contract payments should be maintained together with source documents.

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Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

#### EXCISE TAX REPORTS TO COUNTIES

Excise tax information furnished by the Bureau of Motor Vehicles (BMV) to the counties is confusing and often incorrect, resulting in county personnel spending extra time with insufficient information that could cause the incorrect distribution of excise tax to taxing units. County auditors are responsible for allotting and distributing excise tax collected at the license branches to local taxing units based on data furnished by the BMV. The excise tax collected in the Branch Operating Support System (BOSS) was reported to counties in such a way that the reports matched the corresponding BMV deposits of excise tax to the respective counties. However, excise tax collected in the System Tracking and Record Support (STARS) and reported to the counties is not compiled in a readily usable format, often contains errors, and often does not agree to the amount deposited.

During our review period, the BMV reported STARS collected excise tax to counties in several ways, i.e., paper reporting, CD-ROM, email and an internet site utilizing File Transfer Protocol (FTP) downloads. County personnel must first decipher what the information is and then determine what errors exist. Many times county personnel must contact the BMV for an explanation of why the reported collections do not match the money received. BMV staff must research the problem and respond to the counties which may take several days or even weeks. This, plus the fact that the distribution and adjustments to distributions have not occurred timely, has placed extra work loads on county staff and delayed taxing units' receiving of revenue.

We recommended that controls be developed and put in to place to verify that county excise reports match the corresponding county deposits. If errors are identified, we recommended that necessary corrections and adjustments be made and communicated to the county personnel in a timely and usable fashion.

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"The bureau shall verify the collections reported by the branches and provide the county auditor adequate and accurate audit information, registration form information, records, and materials to support the proper assessment, collection, and refund of excise taxes." IC 6-6-5-10.4

SPECIAL DISBURSING OFFICER FUNDS

Special Disbursing Officer (SDO) accounts are maintained by the Bureau of Motor Vehicles (BMV) and the Bureau of Motor Vehicles Commission (BMVC). Prior review findings concerning the SDO accounts have been reported in the past six BMV reports and in the past three BMVC reports. During our review, we noted the following:

- We performed cash counts at each license branch and identified discrepancies between the amounts of cash on hand and the amount allotted per BMV records at 49 branches. Each license branch was advanced cash to use for making change and for petty cash. We requested a listing of how much cash was given to each branch. BMV Financial Services and BMV Branch Operations each provided a list; however, the two lists were not in agreement. Examples of the discrepancies we noted include one instance in which a branch's cash allotment per the Branch Operations listing was \$1,600 and the allotted amount per the Financial Services list was \$2,500. The total cash counted on the date of our visit was \$1,550. In another example at another branch, the Branch Operations listing allotted \$1,700; Financial Services allotted \$2,100; and we verified actual cash on hand of \$2,750. Because of the conditions of the BMV records, we could not determine how much cash was supposed to be on hand for the 49 branches where discrepancies were noted.
- Each month, the BMV advance for the central office was compared to the balance on hand; however, the two amounts were never in agreement. During the review period, the \$25,000 advance was short as much as \$10,016 and over as much as \$3,206. The BMV records also did not agree to the bank activity each month. At June 30, 2006, the records were under the bank balance by \$238.
- Reconciliations of the BMV and BMVC's SDO advances were not performed in a timely manner. A similar comment appeared in prior review reports.
- There were miscellaneous collections in the BMVC SDO that do not belong there. Agency revenue of \$10,000 was used to open the SDO checking account in 2002 and was never returned. Also, the total amount of insurance proceeds received to reimburse a previous theft were deposited into the account in 2002 when only a portion of the amount should have been deposited into the account. The effect was the SDO amount increased from \$150,000 to \$210,273.72.
- Adequate accounting records were not maintained for either the BMVC or the BMV SDO fund. Adequate records are necessary for accurate processing and to facilitate reconciliations. Accounting records to classify payments and subsequently reference them to the state reimbursement were not maintained. A similar comment appeared in prior review reports.

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- Three SDO disbursements were questioned for the following reasons:
  - No invoice or receipt was provided to support a check issued to the previous Commissioner for \$322. The only information provided was that the expense somehow related to an executive meeting.
  - A claim for \$390 in food for an October 2005 Driver Improvement Seminar was paid without actual receipts being provided.
  - Reimbursement was paid to a license branch employee for a jewelry repair of \$382, without a claim being provided from the employee for the damages.

Advance amounts that do not reconcile with the original amount issued could be an indication of unaccounted for or missing monies. Not reconciling the SDO activity to the bank statements in a timely manner could allow errors or irregularities to occur and go undetected.

We recommended the excess amounts held in the SDO fund be returned to the proper state funds. We further recommended the SDO accounting records be properly maintained with timely reconciliations to the state advance as well as to the bank. Adequate receipts and supporting documentation should be obtained and retained for audit.

We also recommended an accurate listing of the amounts advanced to each license branch be developed, maintained, and compared periodically to the actual cash on hand at the branches.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the SDO checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. At all times, the unreimbursed disbursements plus any advances to office cash or subsidiary checking accounts plus the SDO checking account balance must equal the local purchase advance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

The Special Disbursing Officer is accountable at all times for all sums advanced. The SDO officer may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

#### CASH BOOK

In October 2005, we reviewed the records of the Abandoned Vehicles and Dealer Division (AVDD) and noted that no record of daily receipts, disbursements, and a cumulative ending cash balance, otherwise referred to as a cash book, was maintained. We informed the Bureau of Motor Vehicles (BMV) in Report B26058.

In the two most recent BMV reports, we noted the cash books for the receipt of monies in AVDD were not maintained timely. At that time, entries to the cash book were made after receipt of the bank statement and were posted using the date the bank credited the transaction and not the date the transaction occurred.

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Proper use of a cash book demonstrates controls over the receipt and deposit of public funds, particularly in conjunction with supervisory monitoring of transactions. The statutory noncompliance demonstrated by nonuse or improper use of cash books would allow conditions for fraud to occur and not be detected in the ordinary course of business.

We recommended a method of recording daily receipts, disbursements, and cumulative cash balances be designed and implemented for the activity at AVDD.

Indiana Code 5-13-5-1(a) states: "Every public official who receives or distributes public funds shall: (1) Keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and (2) Balance the cash book daily to show funds on hand at the close of the day."

#### INTERFUND PAYABLE

During our review of the agency object trial balance, we identified a liability for an interfund payable of \$63,277,100 recorded in the Bureau of Motor Vehicles Commission (BMVC) records. This represents the cumulative amount owed to the Motor Vehicle Highway Fund for past transfers made between 1993 and 2001 to the BMVC in order to cover deficits. Due to prior commission fee increases, deficits ceased to occur and the liability balance remains unchanged from at least June 30, 2002.

There has been no action taken to arrange for repayment of the liability. Our review of the Bureau of Motor Vehicles Commission meeting minutes indicated it was last reported to the Commission on February 19, 2004, as ". . . These fund balances presume that the outstanding liability of \$63.3 million to the Highway Transportation fund will not be repaid." Following this meeting, there was no mention of the \$63.3 million liability in the text of the minutes or in the budget attachments.

We recommended that arrangements be made to either repay the Motor Vehicle Highway fund or obtain the necessary transfer authority to remove the liability from the state accounting records.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

#### INACTIVE BANK ACCOUNTS AND AUTHORITY FOR LOCAL BANK ACCOUNTS

During our review of bank account reconcilements at the Dealers and Special Sales Branch (DSS Branch), we identified four inactive bank accounts. Three of the accounts were related to the operations at the DSS Branch and the fourth was a transfer account maintained at the central office. At June 30, 2006, a combined total of \$1,906,517.89 of unidentified dealer and transfer monies remained inactive in non-interest-bearing bank accounts.

These accounts have remained inactive mainly due to the fact the balances have not been identified in order for them to be transferred into the Treasurer of State's account and recorded in the appropriate Auditor of State's Bureau fund/centers. Bureau of Motor Vehicle (BMV) personnel at the central office are responsible for transferring the DSS Branch's funds to the Treasurer based on manual reconciliation and weekly system reports which identify the revenue source.

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Similar comments have appeared in prior review reports.

Additionally, the DSS Branch maintains local bank accounts for ease of depositing monies collected from the auction of abandoned vehicles and automobile dealer transactions. Although the Bureau of Motor Vehicle Commission (BMVC) has statutory authority to establish local bank accounts, we found no such authority for the BMV to maintain local bank accounts without authorization from the Treasurer of State. We confirmed that the Treasurer of State had not authorized local bank accounts for the DSS Branch.

The state does not earn interest on abandoned vehicle or dealer revenue until transferred to the Treasurer of State and, therefore, has potentially lost several years of interest revenue. Procedures are not in place to ensure a timely transfer of these funds. A lack of adequate oversight of these local accounts could also allow fraud to occur and go undetected. Additionally, having bank accounts outside the authorization of the Treasurer of State does not provide sufficient controls that state monies are adequately processed, recorded, and transferred to the correct agency.

Subsequent to the review period on October 10, 2006, one of the accounts was closed and the \$1,506,436.54 balance was transferred to the Treasurer of State. Additionally, transfers of \$369,367.47 and \$22,712.26 were made on November 20, 2006, to close two other bank accounts.

We recommended balances in any inactive bank accounts be closed out and transferred to the Treasurer of State. Policies and procedures should be developed and implemented to identify inactive bank account balances held in a timely manner so that transfers can be made.

We further recommended approval of the Treasurer of State be obtained in order for the DSS Branch to maintain local bank accounts and establish and implement any corresponding controls.

Indiana Code 5-13-6-1 states in part that ". . . all public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state no later than the business day following the receipt of funds."

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Controls over the receipting, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

#### ACCESS TO THE SYSTEM TRACKING AND RECORD SUPPORT (STARS)

The design of the System Tracking and Record Support (STARS) computer system did not include a read-only or inquiry access which would provide management, auditors, and others the ability to view STARS computer screens and information without being able to make any modifications. Since inquiry access was not available, many users were provided with much more access than necessary. This unnecessary access could result in unauthorized modification of data.

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Effective security procedures restrict the computerized resources each authorized user may utilize.

We recommended that an inquiry access be made available to the STARS users who only require viewing capabilities to perform their jobs. We further recommended an analysis be made of users' access to the STARS system and any necessary modifications be made so that access is limited to only what a user needs to perform their job functions.

". . . security definitions and user access rights must enforce adequate segregation of duties for the accounting system." "Computerized audit trails must be protected from modification and destruction." (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 14)

INTERNAL CONTROL OVER BRANCH OPERATION SUPPORT  
SYSTEM (BOSS) LICENSE BRANCH DEPOSITS

The Bureau of Motor Vehicles Commission (BMVC) did not have procedures in place to detect missing deposits from its accounts, or shortages in license branch accounts in a timely manner for transactions processed in the Branch Operation Support System (BOSS). Bank deposit information was not obtained or compared to the BOSS data base. This is necessary to ensure the accurate receipt and classification of deposits into county, state, or commission bank accounts. As a result, we could not determine if the correct balances were held in the county, state, or commission bank accounts.

Procedures were not in place to detect missing license branch transfers to the Bureau of Motor Vehicles (BMV) central office in a timely manner. Daily bank information appeared to be designed to identify those branches with no deposits; however, this was not reviewed or questioned. Also, there was no financial analysis performed in order to identify or question reduced deposits.

There was no review or comparison to verify the accurate receipt of bank transfers that are conducted through a bank subcontractor. Each day, the subcontractor's transaction reports were available for BMV to download. While BMV Internal Audit periodically downloaded the reports in 2004, the information was not compared to actual bank deposits. No such reports were downloaded after 2004.

On a monthly basis, the deposit data base information was compared to the batch invoices that had been received and accepted by BMV central office. The monthly comparisons did not provide assurance that all batch invoices submitted by the license branches were received and accepted by the operations units. The comparison performed produces variance data. After 2004, this data was not compiled into a reviewable format and was not reviewed by BMV Financial Services, BMV Internal Audit, or license branch managers.

We recommended, as a last step in the BOSS closure process, the deposit data for transactions processed utilizing BOSS be obtained and compared to the BOSS classifications of revenue types. Variances identified by this process should be corrected by transfers between the accounts.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

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LICENSE BRANCH EXAMINATION RESULTS

Deposit Composition (Applies to Angola #304, Fort Wayne Southgate #350,  
Kendallville #372, and New Haven #484)

Under the Branch Operating Support System (BOSS), a customer paid for their transaction at the cashier who would enter the amount into the branch's cash register. At the end of the day, the register would produce a receipt (Z-tape) showing the total of all transactions entered and totals by payment category (i.e., cash, check, credit card, etc.). We tested invoices processed utilizing BOSS at each branch and noted the composition of cash, checks, and credit card totals on the Z-tapes did not always agree with the breakdown on the bank deposit tickets and credit card deposit forms.

If the amount of cash, checks, and credit cards collected was different than the cash, checks, and credit cards deposited into the branch's bank account, monies were not being deposited in the form in which they were received. Differences between the composition of collections and the composition of the corresponding deposits could allow for missing monies to go undetected.

Indiana Code 5-13-6-1 states in part: "Public funds . . . shall be deposited in the same form in which they were received."

Transactions must be entered into the register according to the correct department and payment category keys at all times. (Branch Operations Policies and Procedures Manual, Periodic Reconcilements Chapter)

Branch Journal (Applies to Albion #301, Fort Wayne Southgate #350,  
and Indianapolis Lawrence #531)

The Albion branch stopped posting its BOSS journal on May 19, 2006. On that date, the journal showed a balance of \$238,384.36. The branch performed a bank reconciliation as of May 30, 2006, that listed a journal balance of \$156,106.69, but we were unable to verify this balance as the journal had not been maintained.

There was not enough detail in Fort Wayne Southgate's BOSS journal to identify the balance recorded. Branch officials indicated they have requested assistance from BMV Audit Services, but not enough information has been provided to allow for the balance identification.

Indianapolis Lawrence's branch journal was inadequately maintained in that the running balance was not always shown. Additionally, several entries had been left out of the journal. A similar comment has appeared in prior review reports.

Inaccurate journals would not present the branch's correct financial position nor would they allow for identification of the clearing account balance or reconciliation of the journal to the bank balance. Inaccurate journals also enhance the possibility that errors or fraud could occur.

The branch journal is to be updated and maintained daily to account for balances in the branch clearing accounts and to identify differences between the bank balance and journal balance. (Branch Operations Policies and Procedures Manual, Journal/Balancing Chapter)



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Bank Account Reconciliation (Applies to Indianapolis Midtown #193, Goshen #358, Mishawaka #392, Terre Haute #439, Carmel #527, Indianapolis Lawrence #531, Tipton #740, and Fort Wayne Pine Valley #770)

Bank reconciliation problems were noted at seven branches.

At Indianapolis Midtown, bank reconciliations were not current and those that had been completed reflected unexplained variances. No reconciliations were presented for review prior to November 2005. The most recent reconciliation completed was April 2006. Unexplained variances for the months November 2005 to April 2006, ranged from \$55,497.35 to \$35,290.59. Per Branch officials, the Finance Department is aware of the problem and is working with the branch to correct these issues. A similar comment has appeared in prior review reports.

At Mishawaka, the bank reconciliation reflected unexplained variances since February 2006. Some components of the variances have been explained as: credit card problems from 2005 that Finance has not taken care of; invoices transferred more than once; invoices never transferred; and Self-Service Terminal (SST) problems. The reconciliation also reflected an unexplained adjustment to the stated bank balance at May 31, 2006, of \$39,127.95. Branch personnel from the Plymouth Branch had been assisting Mishawaka in attempting to correct the reconciliations. Both branches indicated they have sought the assistance of the Finance Department.

At Terre Haute, the last reconciliation presented for review, which was as of May 10, 2006, showed an unexplained variance of \$9,819.83.

At Carmel, the June 30, 2006, reconciliation showed an unexplained variance of \$7,657.48. Branch officials indicated they have been in contact with Branch Operations to help correct the problem.

At Indianapolis Lawrence, the reconciliations were not current. The most current reconciliation presented for review was as of February 3, 2006, and indicated a cash long of \$95,966.84. Other reconciliations noted were as of July 25, 2005 (variance \$1,246.53) and June 23, 2005 (variance \$56.72). Numerous bank statement amounts could not be located by branch personnel. A similar comment has appeared in prior review reports.

At Tipton, bank reconciliations contained unexplained variances. The Branch manager indicated this had been occurring prior to 2004 when she started as the manager. The Branch manager also stated the Finance Department has been working with her trying to correct the problems. A similar comment appeared in prior review Report B26412.

At Fort Wayne Pine Valley, the June 30, 2006, bank reconciliation reflected an unidentified cash long of \$14,783.04. Branch personnel indicated they have requested assistance from the Finance Department to correct the problem, but to date have not received it.

The lack of accurate bank account reconciliations could lead to erroneous financial information being provided to management, overdrawn bank accounts, or fraudulent activity occurring and going undetected.

All accounts are required to be balanced on a monthly basis. All unidentified cash shortages and overages of twenty dollars or more must be reported to Branch Operations before the next Trial Balance is performed. (Branch Operations Policies and Procedures Manual, Journal Chapter, Miscellaneous Branch Procedures Chapter)

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Money Collected For Work Not Reported (Applies to Indianapolis Midtown #193)

Money collected for work not reported was not properly identified in the branch's BOSS journal. A similar comment has appeared in prior review reports.

Improperly identified money collected for work not reported could lead to transaction errors when work is subsequently reported or enhance the possibility fraudulent activity could occur. Additionally, monies might not be identifiable in order to allow for transfer to the proper state, county, or commission bank account when the work was processed.

All monies collected for held work must be posted by customer's name, amount and transaction description to the branch journal. (Branch Operations Policies and Procedures Manual, Journal Chapter)

Check Register Retention (Applies to Albion #301, Angola #304,  
West Lafayette #376, Pendleton #464, Columbus #629, and Hope #729)

The System Tracking and Record Support (STARS) has the ability to print a check register detailing check amount and customer name for each invoice completed at a branch. The check register cannot be viewed on a computer screen. Therefore, it must be printed at the closeout of an invoice after all the checks and cash have been verified. The check registers for some invoices were not retained in the End of Day file.

The lack of a detailed listing of checks deposited does not allow for verification that all checks deposited were for transactions processed on the corresponding day's invoice. The detailed listing is important to help ensure the checks being deposited are for the current day's transactions and are not being substituted for cash that has been fraudulently removed from collections.

For each invoice day, a file will be created that will contain the following items:

Deposit Slip (with hand written over/short comments)  
Check Register (with calculator tapes attached) . . .

(Bureau of Motor Vehicles Trial Balance, End of Day & Deposit Guidelines Policy and Procedures, 5.6 End of Day File)

Self-Service Terminal Transactions Not In Bank Account  
(Applies to Kokomo #487 and Indianapolis Lawrence #531)

At Kokomo, the May 16, 2006, Self-Service Terminal (SST) invoice 050 totaling \$7,572.35 was recorded in the journal but had not been deposited into the branch's account as of June 30, 2006.

At Indianapolis Lawrence, five invoices from January 2006 totaling \$75,571.35 had been posted to the journal but had not been deposited into the branch's account as of May 16, 2006. A memo from the former branch manager was observed noting the five SST amounts that had been posted to the journal but not yet received from the credit card processing vendor.

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Bureau and branch personnel indicated there had been problems with some SST transactions during the review period. Both of the branches noted above indicated they had notified Bureau personnel at the main office who were working on this problem. Because no monies had been deposited from the credit card processing vendor for the noted invoices, transfers cannot be made from the proper BMV account without fear of overdrawing the local account. Additionally, undeposited amounts could lead to the funds being diverted to the wrong account or never being recovered.

All funds must be deposited or night-dropped on the same business day of receipt. (Branch Operations Policies and Procedures Manual, Depositing Chapter)

### COMMISSION OVERSIGHT

The Bureau of Motor Vehicle Commission (BMVC) is the oversight authority for the bureau and as such, is responsible for establishing policies and granting approval for various types of bureau and branch activities. However, the BMVC did not meet in formalized meetings from December 2004 through July 2005. All decisions for this period were made by the Commissioner and subsequently approved by the full BMVC during their first meeting in July 2005.

During the fiscal year ended June 30, 2006, the BMVC did not approve actions until after the fact. These actions included, but were not limited to, contracting and purchasing actions, personnel actions, real estate actions, as well as revisions and updates to the employee handbook and operating policies. When we inquired into the specifics of contractual matters such as dollar amounts, purposes, contractor names, etc., that occurred during this period, Bureau of Motor Vehicles (BMV) personnel were not always able to present them (for review).

As the oversight authority, the BMVC has the responsibility to approve material actions prior to their occurrence. Not approving material actions prior to their occurrence or waiting to consider a material matter until after the fact could lead to events occurring that the BMVC would not have approved of had they taken them into consideration prior to the event.

We recommended that the BMVC not enter into contracts of a material nature until proper approval is received by the Commission.

Indiana Code 9-15-2-1 "Sec. 1. The commission shall do the following: (1) Develop and continuously update the bureau's policies . . . (9) Administer the state license branch fund established under IC 9-2-9-14."

### PROCUREMENT PROCEDURES

The largest contract of the Bureau of Motor Vehicles Commission (BMVC) was with Star Financial Bank, for bank and credit card servicing during our review period.

On April 30, 2005, the contract with Star Financial Bank expired. The Bureau of Motor Vehicle (BMV) continued to utilize the bank's services without a written contract throughout the fiscal year 2006. After the contract expired from May 1, 2005 thru November 6, 2006, BMVC paid Star Financial a total of \$5,391,644.

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Additionally, in fiscal year 2006, another company, Link2Gov, was contracted for credit card servicing based on a proposal process. Star Financial bank continued to process the bank and credit card transactions for the Branch Operating Support System (BOSS) through June 2006.

A similar comment regarding expired contracts has appeared in prior review reports.

We recommended that formal contracts be in place when necessary.

"The procedural requirements for the procurement of equipment, materials, goods, and services or the lease of equipment shall include the giving of notice and competitive sealed bidding." [140 IAC 8-2-4(a)] Competitive sealed proposals can be obtained "when the commission chairman makes a written determination that the use of competitive sealed bidding is either not practicable or not advantageous to the state." [140 Indiana Administrative Code 8-2-4(d) (1)]

"The commission, or its duly authorized procurement agent, hereinafter referred to collectively as purchaser, shall comply with the procedural requirements of this procurement system whenever the total amount of any procurement of equipment, materials, goods, or services exceeds seventy-five thousand dollars (\$75,000), or the total annual rental payment under any equipment lease exceeds twenty-five thousand dollars (\$25,000)." [140 IAC 8-2-3(a)]

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

#### DRIVER IMPROVEMENT INSTRUCTION

We reviewed the Bureau of Motor Vehicles (BMV) Driver Improvement Instruction records and identified the following conditions:

##### Lack of Properly Executed State Contracts

BMV had contracts with five vendors which expired August 31, 2005, to provide driver improvement instruction to the public. Early in 2005, BMV opened a Request for Proposal (RFP) process and in June 2005, the Indiana Department of Administration (IDOA) notified respondents the RFP had been canceled at the discretion of the BMV and that BMV planned to monitor the program without the formal process of a contract agreement. On August 31, 2005, the BMV notified the RFP respondents interim approval would be granted to administer the programs through December 31, 2005. In letters dated between December 22, 2005 and March 3, 2006, the RFP respondents were given a copy of a Terms of Agreement (TOA) letter to sign and return to BMV in lieu of a contract. The TOA letters stated the beginning of the agreement period as December 2005, with an expiration date of August 31, 2007. The TOA letter for one vendor was not provided for review.

The TOA letters were solely signed for approval by the Deputy Director of the BMV's Driver Improvement Safety Responsibility Division (DISR). Standard state contract terms were not included and no other state official signed the agreements.

Agreements for services should have adequately documented written contracts to prevent disputes between the entities as to what services were to be provided. Entering into contracts without proper management approvals and oversight could allow for payments to be made without management's knowledge.

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Indiana Code 4-13-2-14.1 requires that a contract to which a state agency is a party must be approved by the Commissioner of the Indiana Department of Administration, the Director of the Budget Agency, the Attorney General or their designees. Indiana Code 4-13-2-14.2 requires that a contract entered into by a state agency be in writing.

We recommended BMV DISR vendor services have written agreements that are signed by all parties in accordance with Indiana Code 4-13-2-14.1 and 4-13-2-14.2. We also recommended BMV DISR develop better communications with BMV Financial Services when vendors are not under agreement.

Driver Improvement Instruction Course Revenue

Until August 31, 2005, the BMV contracted with vendors for driver improvement classes. The contracts with each provide that "on a quarterly basis, contractor will pay the state an administrative fee of five dollars (\$5.00) for each student completing any distance learning or classroom course." While formal contracts were discontinued effective August 31, 2005, the vendors continued to provide services and submit student records to the DISR. The DISR continued to require a \$5 administrative fee which was billed by BMV Financial Services. No accounts receivable records were maintained. A similar comment appeared in prior BMV review reports.

During the current review, vendors were not promptly invoiced for the \$5 administrative fee at the end of each quarter. On April 3, 2006, vendors were billed for quarters ended September 30, 2005, and December 31, 2005. On July 31, 2006, vendors were billed for quarters ended March 31, 2006, and June 30, 2006. As of August 3, 2006, the newest vendor had not remitted payment for the billing issued on April 3, 2006.

We also determined that an effective control to determine the correct amount to bill vendors is not in place. The actual number of students listed on the vendor's report is not verified before invoicing vendors. We identified discrepancies in the newest vendor's records submitted. Summary counts of students varied from the actual number of students listed on the report that DISR uses to reduce points on drivers' records.

We recommended vendors be promptly invoiced upon verification of vendor reports and accounts receivable records be maintained so that revenues are received timely. Action should be taken to collect any outstanding fees.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

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INTERNAL CONTROL OVER BUREAU OF MOTOR VEHICLES DIVISION REVENUE COLLECTIONS

We noted in our testing of revenue collections there was a lack of segregation of duties in collection of vehicle record fees in the Bureau of Motor Vehicles (BMV) Vehicle Services division and in the collection of financial responsibility and reinstatement fees in the BMV Driver Improvement Safety Responsibility (DISR) division. The same clerk performs all functions related to opening mail, restrictive endorsement of checks, posting the check into the system and preparing the deposits and reports of collection. A similar comment appeared in prior review reports.

We also noted a similar condition in the BMV Driver Records division. We noted that the same clerk performed all functions mentioned above for driver record inquiries. In addition, this division maintains an electronic database of money received. We requested, but were never provided, access to the database. Some of the same staff which perform revenue collections also had access to record monies received into the database.

We also identified a lack of segregation of duties over BMV Central Treasury processing. The same clerk receives reports of monies collected, otherwise referred to as Reports of Collection (ROC), from the various divisions, verifies the ROC, and takes the money to the Treasurer of State. The divisions do not receive a copy of the approved and processed ROC to verify the amount processed is the same as the amount they remitted to BMV Central Treasury. There is no control in place to ensure the complete deposit and processing of the division revenues.

Having the same person perform tasks such as receiving monies, posting transactions, preparing deposits, opening mail, endorsing checks, etc., could allow for irregularities or missing monies to occur and go undetected.

We recommended the duties of collecting monies, processing the receipt and transaction, preparing the ROC, making deposits and performing reconciliations be segregated to the fullest extent possible. A copy of the final processed ROC should be transmitted to the originating division, whose staff should then compare it with the original prepared.

Indiana Code 5-11-1-2 states in part: "The state board of accounts shall formulate or approve all statements and reports necessary for the internal administration of the office to which they pertain."

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

LICENSE BRANCH INVENTORY

There is no mechanism in place to account for items for sale, otherwise referred to as accountable items. Procedures were not in place to detect inventory shortages or discrepancies in a timely manner.

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Neither the old Branch Operating Support System (BOSS) nor the new System Tracking and Record Support (STARS) computer system maintained perpetual inventory records in order to identify balances that should be on hand.

A similar comment has appeared in prior review reports.

We recommended that a perpetual inventory system be designed and implemented together with a related formal control structure.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

#### PAYROLL ATTENDANCE REPORTS

Attendance reports are the source document for payroll processing. These must be dated and signed by the employee and then signed as approved by the supervisor. Our review of the attendance reports maintained at the central office revealed the following deficiencies:

- For the Bureau of Motor Vehicles Commission (BMVC), we reviewed the attendance reports for six branches and identified errors in 19% of the reports. South Bend and Franklin had the largest error rates of 24% and 22%, respectively. Errors included unsigned attendance reports, undated reports, photocopies of reports without original signatures, corrected attendance reports that were unsigned, and supervisor signatures dated prior to employee signatures, indicating the supervisor's lack of review of the data. Due to these errors, we determined the reports are not being reviewed for accuracy and completeness.
- For the Bureau of Motor Vehicles (BMV), the error rate for the pay periods we tested ranged from 13% to 18%. The errors were largely due to attendance reports being dated incorrectly, either before the last day worked or on a day the employee did not work at all. Errors also included supervisors signing prior to the employee signing the attendance report. Due to these errors, we can not determine if attendance reports are being properly processed.

Improperly signed or approved attendance reports could allow for payroll disbursements to be made that were for time claimed but not actually worked. A lack of review by management could allow for errors or irregularities to occur and go undetected.

We recommended procedures be implemented to properly sign and approve attendance reports. BMV Payroll Division should review the attendance reports for accuracy and completeness and communicate deficiencies to management.

The attendance report is to be completed, signed and dated by the employee. It should not be completed, signed or dated before the last day worked in the pay period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

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CREDIT CARD PROCESSING FEES

The Bureau of Motor Vehicles Commission (BMVC) entered into contracts with a credit card vendor and with a credit card company and paid credit card transaction processing fees. The BMVC did not collect these fees from the persons using credit cards, as required by statute and Indiana Administrative Code (IAC). A total of \$ 11,274,013 in processing fees was paid to the credit card vendors during the review period, resulting in a loss of available funds to the state.

A similar comment has appeared in several prior review reports.

We recommended procedures be developed and implemented to comply with the statutory requirement that the credit card transaction fee be collected from the person using the card.

Indiana Code 6-6-5-9 states in part: "The bureau may contract with a bank card or credit card vendor for acceptance of bank or credit cards. However, if there is a vendor transaction charge or discount fee, whether billed to the bureau or charged directly to the bureau's account, the bureau shall collect from the person using the card an official fee that may not exceed the highest transaction fee or discount fee charged to the bureau by bank or credit card vendors during the most recent collection period. This fee may be collected regardless of retail merchant agreements between bank and credit card vendors that may prohibit such fee. The fee is a permitted additional charge under IC 24-4.5-3-202."

The credit card handling service charge is further addressed in 140 IAC 8-3-7 as: "(a) the credit card handling service charge is the service charge for which all license branches shall charge for the processing and handling of credit card sales of all license branch transactions. (b) The credit card handling service charge for each credit card slip used shall not exceed five dollars (\$5). (This will be for the total sale listed on each credit card slip used, regardless of the number of individual transactions purchased at that time.) (c) All amounts collected under this section shall be deposited in the state license branch fund."

FIXED ASSET INVENTORY

The fixed asset inventory listings were not complete as to additions and retirements. Assets have not been consistently tagged upon receipt. A physical inventory of assets owned was conducted in the state fiscal year 2005. However, the process was incomplete as items not found during the inventory were not deleted. Items located during the inventory were marked with a check on the database. New items added after the physical inventory was performed were also marked with a check mark even though they were not technically present at the time of the inventory. No inventory was performed in fiscal year 2006.

A similar comment has appeared in prior review reports.

The asset control database was incomplete. The acquisition date, acquisition cost, and fund number purchased from, were not included on the agency's asset control database. Bureau of Motor Vehicles (BMV) personnel responsible for entering fixed assets on the system generally did not have access to this information. Also, the asset location given in the database was generally not sufficient to physically locate the asset.

We recommended complete asset inventory records be maintained and that an annual physical inventory be conducted with necessary corrections made to the records to reflect the asset location and to follow up on missing equipment.



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Each state agency is required to maintain an asset control system at the agency for assets costing \$500 or more. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

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EXIT CONFERENCE

The contents of this report were discussed on December 22, 2006, with Monty W. Combs, Deputy Commissioner; Jeff Brown, Director of Financial Operations; and Matt Chuck, Field Auditor. The contents of this report were discussed on January 17, 2007, with Ronald L. Stiver, Commissioner. The official response has been made a part of this report and may be found on page 33.



## STATE OF INDIANA

Mitchell E. Daniels, Jr., Governor

Ronald L. Stiver, Commissioner  
Bureau of Motor Vehicles  
100 North Senate Avenue  
Indianapolis, Indiana 46204  
(317) 233-6000

January 19, 2007

Mr. Bruce Hartman, State Examiner  
Indiana State Board of Accounts  
Room E418  
Indiana Government Center South  
Indianapolis, IN 46204

Dear Mr. Hartman,

This letter serves as our response to the State Board of Accounts Audit Results and Comments for the Bureau of Motor Vehicles (BMV) covering the period beginning on March 1, 2004 and ending June 30, 2006. The results of this audit were presented on December 22, 2006. On behalf of the entire BMV management team, I would like to express my appreciation to the State Board of Accounts for the insights offered and the professionalism displayed.

The report summarizes chronic deficiencies, with the vast majority appearing in previous audit reports, and some appearing on as many as eight or nine previous reports. This is simply not acceptable, and I can assure you that we are committed to rectifying any and all deficiencies identified during the audit. While we have made progress in addressing findings in recent weeks through intense efforts, much progress clearly remains.

Again, I sincerely appreciate the insight and assistance from the State Board of Accounts, and look forward to continued collaboration as the BMV moves forward to aggressively develop and implement additional corrective actions.

Best regards,

Ronald L. Stiver  
Commissioner